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EDUCATIONAL AND TREATMENT COUNCIL, INC.
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORTS
Year Ended June 30, 2001

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12/5/01

GRAGSON, CASIDAY & GUILLORY, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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GRAGSON, CASIDAY & GUILLORY, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

October 25, 2001

To the Board of Directors
Educational and Treatment Council, Inc.
Lake Charles, Louisiana

We have audited the accompanying statement of financial position of Educational and Treatment Council, Inc. (a nonprofit organization) as of June 30, 2001, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Educational and Treatment Council, Inc. as of June 30, 2001, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2001, on our consideration of Educational and Treatment Council, Inc.'s internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Educational and Treatment Council, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Grayson, Casiday & Guillory

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2001
With Comparative Totals as of June 30, 2000

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 468,662	\$ 189	\$ -
Investments	459,244	-	-
Accounts receivable	164,190	-	-
Interest receivable	4,462	-	-
Prepaid expenses	<u>4,481</u>	<u>-</u>	<u>-</u>
Total current assets	1,101,039	189	-
Fixed Assets at cost (net of accumulated depreciation of \$602,282)			
	<u>921,172</u>	<u>-</u>	<u>1,266</u>
Total assets	<u>\$ 2,022,211</u>	<u>\$ 189</u>	<u>\$ 1,266</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 24,215	\$ -	\$ -
Interest payable	15,205	-	-
Accrued salary and payroll taxes	<u>10,305</u>	<u>-</u>	<u>-</u>
Total current liabilities	49,725	-	-
Long-Term note payable			
	<u>500,000</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>549,725</u>	<u>-</u>	<u>-</u>
Net Assets			
Unrestricted			
Undesignated	1,297,301	-	-
Board designated	<u>175,185</u>	<u>-</u>	<u>-</u>
Total unrestricted	1,472,486	-	-
Temporarily restricted	-	189	-
Permanently restricted	<u>-</u>	<u>-</u>	<u>1,266</u>
	<u>1,472,486</u>	<u>189</u>	<u>1,266</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,022,211</u>	<u>\$ 189</u>	<u>\$ 1,266</u>

See accompanying notes.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2001
With Comparative Totals for the year ended June 30, 2000

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS			
Contributions	\$ 12,514	\$ -	\$ -
Grants and contracts	1,257,503	-	-
Service taxes	365,026	-	-
Interest	52,126	-	-
Miscellaneous	9,109	-	-
Net assets released from restrictions:			
Satisfaction of program restrictions	6	(6)	-
Expiration of time restrictions	<u>3,755</u>	<u>-</u>	<u>(3,755)</u>
Total public support, revenues and reclassifications	<u>1,700,039</u>	<u>(6)</u>	<u>(3,755)</u>
Expenses			
Residential Services	827,608	-	-
Community Program Services	808,195	-	-
Fund-raising	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>1,635,803</u>	<u>-</u>	<u>-</u>
Change in net assets	64,236	(6)	(3,755)
Net assets, beginning	<u>1,408,250</u>	<u>195</u>	<u>5,021</u>
Net assets, ending	<u>\$ 1,472,486</u>	<u>\$ 189</u>	<u>\$ 1,266</u>

See accompanying notes.

Totals	
2001	2000
\$ 12,514	\$ 68,460
1,257,503	1,115,741
365,026	351,646
52,126	40,210
9,109	1,595
-	-
-	-
<u>1,696,278</u>	<u>1,577,652</u>
827,608	793,699
808,195	744,036
-	13,849
<u>1,635,803</u>	<u>1,551,584</u>
60,475	26,068
<u>1,413,466</u>	<u>1,387,398</u>
\$ <u>1,473,941</u>	\$ <u>1,413,466</u>

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2001
With Comparative Totals for the Year Ended June 30, 2000

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 60,475	\$ 26,068
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	55,344	58,321
(Increase) decrease in accounts receivable	(2,386)	(44,352)
(Increase) decrease in interest receivable	(4,462)	-
(Increase) decrease in prepaid expenses	483	(47)
Increase (decrease) in accounts payable	(9,727)	(13,739)
Increase (decrease) in interest payable	605	-
Increase (Decrease) in accrued expenses	<u>5,640</u>	<u>(13,322)</u>
Net cash from operating activities	<u>105,972</u>	<u>12,929</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(16,266)	(22,008)
Proceeds from sale of investments	484,278	-
Purchase of investments	<u>(217,499)</u>	<u>(362,065)</u>
Net cash from investing activities	<u>250,513</u>	<u>(384,073)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	<u>-</u>	<u>9,073</u>
Net increase (decrease) in cash and cash equivalents	356,485	(362,071)
Cash and cash equivalents, beginning	<u>112,366</u>	<u>474,437</u>
Cash and cash equivalents, ending	<u>\$ 468,851</u>	<u>\$ 112,366</u>

See accompanying notes.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2001
With Comparative Totals for the Year Ended June 30, 2000

	Residential Services	Community Program Services
Advertising	\$ 1,454	\$ 751
Clinical supervision	24,811	2,874
Data processing	1,646	1,853
Dues/subscriptions	343	797
Employee benefits	29,167	22,284
Educational	1,061	3,227
Food	31,560	181
Fund-raising	-	-
Housekeeping supplies	7,488	137
Insurance-workmen's compensation	6,658	4,002
Insurance-liability	12,149	5,561
Insurance-motor vehicle	4,904	2,388
Insurance-malpractice	-	-
Insurance-other	768	1,257
Interest	9,000	16,605
Janitorial services	18,070	3,051
Licenses	655	300
Medical service	8,719	-
Medical supplies	-	-
Miscellaneous	6,947	8,424
Motor vehicle	4,561	21,708
Office supplies	4,678	7,044
Payroll taxes	41,576	41,572
Personal client needs/clothing	8,043	11,190
Printing	853	399
Postage	898	2,159
Professional services	8,130	31,531
Psychiatry services	5,130	-
Recreational	2,344	14,387
Rent	-	15,980
Repairs and maintenance – building and grounds	11,671	519
Repairs and maintenance – equipment	6,344	4,993
Salaries	497,390	492,261
Supplies	4,489	481
Telephone	5,396	17,248
Therapeutic supplies	824	1,603
Travel and training	5,521	40,326
Utilities	25,338	4,780
Total expenses before depreciation	798,586	781,873
Bad debt	-	-
Depreciation of buildings and equipment	29,022	26,322
Total expenses	\$ 827,608	\$ 808,195

See accompanying notes.

Totals	
2001	2000
\$ 2,205	\$ 5,005
27,685	31,973
3,499	3,272
1,140	2,855
51,451	31,569
4,288	1,943
31,741	32,198
-	13,849
7,625	5,141
10,660	3,748
17,710	20,420
7,292	10,711
-	71
2,025	1,856
25,605	25,977
21,121	-
955	389
8,719	3,094
-	65
15,371	7,244
26,269	14,044
11,722	20,996
83,148	72,987
19,233	10,628
1,252	11,395
3,057	3,398
39,661	44,476
5,130	2,494
16,731	6,378
15,980	15,300
12,190	34,168
11,337	15,414
989,651	923,518
4,970	8,694
22,644	21,612
2,427	18,536
45,847	39,466
30,118	26,323
1,580,459	1,491,207
-	2,056
55,344	58,321
<u>\$ 1,635,803</u>	<u>\$ 1,551,584</u>

GRAGSON, CASIDAY & GUILLORY, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Educational and Treatment Council, Inc. is a nonprofit corporation organized under the laws of the State of Louisiana for the purpose of serving children, adolescents, families, individuals, and communities within the five-parish area of Southwest Louisiana, through comprehensive counseling services, crisis services, prevention services, community education and residential services for youth.

Emergency Shelter for Children (commonly known as Harbor House) is a program of Educational and Treatment Council, Inc. for the purpose of providing shelter and counseling to adolescents and children. The Shelter provides emergency shelter care to children and youth between the ages of 3 and 17 who must either be removed from their homes for reasons of neglect, physical or emotional abuse, and/or who are otherwise homeless due to their status as runaways, status offenders or children in need of care. Shelter care is defined here as a specialized form of short-term residential care for children including youthful offenders who do not require secure care. Shelter care shall generally be provided for an average period of 30 days. Only in cases of documented emergency shall Shelter care be extended beyond 60 days.

Public Support and Revenues

Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, restricted net assets are reclassified to unrestricted net assets.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

No amounts have been reflected in the statement for donated services inasmuch no objective basis is available to measure the value of such services. However, substantial number of volunteers have donated significant amounts of time to the Council's program services and to its fund-raising activities.

Continued

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable at June 30, 2001 of \$164,190 represents receivables from federal and state grants.

Cash Deposits

At various times during the fiscal year, the Council's cash in bank balances exceeded the Federally insured limits. At June 30, 2001, the Council's uninsured cash balances totaled \$410,400.

Investments

Investments consist of cash deposits with maturities of greater than three months at time of purchase.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Council considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

Income Taxes

Educational and Treatment Council, Inc. is a nonprofit organization as described under Section 501(c)(6) of the Internal Revenue Code and is exempt from federal and state income taxes. Educational and Treatment Council, Inc. has been determined by the Internal Revenue Service not to be a "private" foundation within the meaning of Section 170(b)(1)(A)(vi) of the Code.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

NOTE B – FIXED ASSETS

The following is a summary of property and equipment as of June 30, 2001:

	<u>Cost</u>
Land	\$ 25,000
Buildings	1,081,704
Improvements	30,780
Transportation equipment	28,161
Furniture and fixtures	309,346
Equipment	<u>49,729</u>
	1,524,720
Less: Accumulated Depreciation	<u>602,282</u>
Total	<u>\$ 922,438</u>

Property and equipment is stated at cost, net of accumulated depreciation. Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed principally by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	30
Equipment, furniture and fixtures	5-10
Transportation equipment	5
Leasehold improvements	15

NOTE C – BOARD DESIGNATED UNRESTRICTED NET ASSETS

Board designated unrestricted net assets at June 30, 2001 are funds set aside for future payments of long-term debt.

NOTE D – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2001 are available for the following purposes or periods:

Runaway Youth Act Program	<u>\$ 189</u>
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EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

NOTE E – PERMANENTLY RESTRICTED NET ASSETS

Property acquired with federal and community development grants is considered owned by the Council while used in the program for which it was purchased or in other future authorized programs; however, the United States and other grantor agencies have reversionary interests in certain property. Its disposition as well as the ownership of any proceeds therefrom is subject to government regulations. The total carrying value of property and equipment in which the United States and other grantor agencies have reversionary interest is \$1,266 at June 30, 2001.

NOTE F – COMMITMENTS AND CONTINGENCIES

The Council receives a substantial amount of its support from state and local government. A significant reduction in the level of this support, if this were to occur, may have an effect on the programs and activities.

NOTE G – RETIREMENT COMMITMENTS

All employees of the Council are members of the Federal Social Security System. The Program contributes 7.65% of gross salaries up to appropriate statutory limits to that system. The Federal Social Security System administers the plan and pays benefits.

NOTE H – SICK AND VACATION PAY

The first six months of employment are considered a probationary period during which time sick and vacation leave accrues at one day per month worked for each. Any days missed during this period are treated as noncompensatory leave. Termination of service with the Council during this period results in forfeiture of all accrued sick and vacation leave.

At the beginning of employment, full time employees begin accruing sick leave at the rate of 1 day per month. This accrual of sick leave shall continue until the employee has accrued a maximum of 30 days sick leave. After this maximum has been achieved, no further sick leave shall be accrued until the balance is reduced below 30 days. Any employee terminating agency service shall not be compensated in any form for any unused accrued sick leave. Therefore, no liability has been accrued for these benefits.

At the beginning of employment, full time employees begin accruing annual leave at the rate of 1 day per month up to twelve (12) days annual leave each year of employment. After three years of service, the annual leave increases one day for each additional year of service up to a maximum of twenty (20) days per year.

Any unused annual leave at June 30th of each year shall be reduced to zero unless carryover is authorized by the Board. The dollar value of accrued leave at June 30, 2001 amounted to \$8,805.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

NOTE I – LONG-TERM DEBT

Long-term debt at June 30, 2001 consists of:

Note payable to Brown Foundation, Inc. due November 11, 2018, plus interest payable annually at 5%, secured by a building	\$ 500,000
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A requirement of this note is a sinking fund be established in 2002. Annual payments are due for years 2002 through 2017 in a sum sufficient to insure, when the final payment becomes due, the sinking fund will be able to repay the entire principal sum due. An investment with a balance of \$173,185 at June 30, 2001 has been made to pay off this debt at maturity (see Note C).

NOTE J – FUNCTIONAL ALLOCATION OF EXPENSES

Expenses were allocated in the accompanying financial statements to program and supporting service functional expense groups. The methods of allocation were based on several factors such as utilization of office space as well as the Council estimates of the relative proportion of various staff members' time and effort between programs and administrative functions.

NOTE K – OPERATING LEASE COMMITMENT

The Council leases office space, office equipment and vehicles under operating leases expiring at various times during the year ending June 30, 2002.

Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year as of June 30, 2001 are as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 9,229

Rental expense under operating leases was \$15,980.

NOTE L – JUVENILE SERVICES TAX

On May 5, 1984, the property owners of Calcasieu Parish passed the Juvenile Detention, Probation and Services Tax. The Juvenile Services tax was approved by voters for 2.4 mills. The Calcasieu Parish Policy Jury shall pay as soon as ad valorem taxes are received by the Calcasieu Parish Policy Jury a sum equal to the stated contract amount. For and in consideration of the payment of the foregoing lease sums, Education and Treatment Council, Inc. shall provide juvenile services without further cost to the Court or the Calcasieu Parish Police Jury for emergency shelter to children as described in the purpose above.

Amounts paid under the contract for the year ended June 30, 2001 was \$365,026.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

NOTE M – LETTER OF CREDIT

Educational and Treatment Council, Inc. entered into an agreement with the Bank One Louisiana, NA to obtain a stand-by letter of credit and security agreement. The letter of credit is secured by assignment of a certificate of deposit with the Bank One, Louisiana, NA in an amount of \$20,432. The letter of credit became active on September 12, 2000 and expires on September 1, 2001 and is available in an amount not to exceed \$18,712.

NOTE N – COMPARATIVE INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended June 30, 2000, from which the summarized information was derived.

NOTE O – RECLASSIFICATIONS

Certain reclassifications have been made to the 2000 financial statements to be in conformity with the 2001 method of presentation.

EDUCATIONAL AND TREATMENT COUNCIL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2001

Federal Grantor/ Pass-through Grantor <u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Disbursements/ Expenses</u>
U.S. Department of Health and Human Services Runaway Youth Act Program	93.623	06CY0747	\$ 162,599
Pass-through from State of Louisiana Department of Health and Hospitals Office of Mental Health	93.958	DHH66287	134,005
Office of Public Health	93.994	DHH16712	50,901
Pass-through from State of Louisiana Department of Social Services, Office of Community Services Promoting Safe and Stable Families	93.556	CFMS 541561	377,527
Title IV-B Part 2	93.556	CFMS 552738	127,504
Childrens Trust Fund	93.994	CFMS 565166/560971	14,991
U.S. Department of Agriculture Pass-through from State of Louisiana Department of Education School Lunch Program	10.555	-	21,454
U.S. Department of Housing and Urban Development Pass-through from City of Lake Charles, LA. ESGP – Utility Assistance	14.231	-	<u>3,515</u>
Total Federal Awards			\$ 892,496

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Educational and Treatment Council, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

GRAGSON, CASIDAY & GUILLORY, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 25, 2001

To the Board of Directors
Educational and Treatment Council, Inc.
Lake Charles, Louisiana

We have audited the financial statements of the Educational and Treatment Council, Inc. (a nonprofit organization) as of and for the year ended June 30, 2001 and have issued our report thereon dated October 25, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Educational and Treatment Council, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Educational and Treatment Council, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Educational and Treatment Council, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-01, 01-02 and 01-03.

Educational and Treatment Council, Inc.
October 25, 2001
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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relations to the to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Directors, management, others within the Council, federal awarding entities and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Gragson, Casiday & Guillory

GRAGSON, CASIDAY & GUILLORY, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 25, 2001

Board of Directors
Educational and Treatment Council, Inc.
Lake Charles, Louisiana

Compliance

We have audited the compliance of Educational and Treatment Council, Inc. (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. Educational and Treatment Council, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Educational and Treatment Council, Inc.'s management. Our responsibility is to express an opinion on Educational and Treatment Council, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Educational and Treatment Council, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Educational and Treatment Council, Inc.'s compliance with those requirements.

In our opinion, Educational and Treatment Council, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Educational and Treatment Council, Inc.
October 25, 2001
Page Two

Internal Control Over Compliance

The management of Educational and Treatment Council, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Educational and Treatment Council, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, others within the Council, federal awarding entities and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Gragson, Casiday & Guillory

EDUCATIONAL AND TREATMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2001

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weaknesses identified? ☐ Yes ☒ No

Reportable conditions identified not considered
to be material weakness? ☒ Yes ☐ None reported

Noncompliance material to financial statements
noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness identified? ☐ Yes ☒ No

Reportable condition identified that is not considered
to be material weakness? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance
for major programs: unqualified

Any audit findings disclosed that are required to
be reported in accordance with Circular A-133,
Section .510(a)? ☐ Yes ☒ No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.556	Promoting Safe and Stable Families
93.556	Title IV-B Part 2

Dollar threshold used to distinguish between
Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Continued

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2001

SECTION II – FINANCIAL STATEMENT FINDINGS

01-01 Segregation of Duties

Condition: Because of the Council's size and the limited number of accounting personnel, it is not feasible to maintain a complete segregation of duties to achieve effective internal control.

Criteria: Effective internal control requires adequate segregation of duties among client personnel.

Effect: Without proper segregation of duties, errors within the financial records or fraud could go undetected.

Recommendation: To the extent cost effective, duties should be segregated and management should attempt to mitigate this weakness by supervision and review procedures.

Response: Management concurs with this recommendation and has implemented supervision and review procedures to the extent possible.

01-02 Bank Reconciliations

Condition: The operating cash account on the general ledger is not being reconciled to the bank reconciliation.

Criteria: Bank reconciliations should be prepared and reconciled to the general ledger on a monthly basis to insure that the financial records are complete and fairly stated.

Effect: Cash account and income and expense accounts may be misstated on reports provided to management.

Recommendation: Procedures should be implemented requiring all bank accounts to be reconciled on a monthly basis with differences investigated. The bank reconciliation should be reviewed by appropriate Council personnel.

Response: The Financial Officer is in charge of reconciling the general ledger cash accounts to the bank reconciliations and the reconciliation will be reviewed by the proper level of management.

Continued

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2001

SECTION II – FINANCIAL STATEMENT FINDINGS - CONTINUED

01-03 Accounts Payable

Condition:	The accounts payable control account on the general ledger is not being reconciled to the accounts payable subsidiary ledger.
Criteria:	This procedure would insure that the accounts payable balance on the general ledger is correct and that management is provided complete and accurate information.
Effect:	Accounts payable and expense accounts may be misstated on reports provided to management.
Recommendation:	Procedures should be implemented requiring the accounts payable subsidiary ledger to be reconciled to the accounts payable control account on a monthly basis. The reconciliations should be reviewed by appropriate Council personnel.
Response:	The Financial Officer is in charge of reconciling the accounts payable control account on the general ledger to the accounts payable subsidiary ledger on a monthly basis. The reconciliation will be reviewed by the proper level of management.

SECTION III – FEDERAL AWARD FINDINGS & QUESTIONED COSTS

None

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended June 30, 2001

No matters were reported.



EDUCATIONAL AND TREATMENT COUNCIL, INC.

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EDUCATIONAL AND TREATMENT COUNCIL, INC.

CORRECTIVE ACTION PLAN

Year Ended June 30, 2001

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings – Financial Statement Audit

01-01 Segregation of Duties

Recommendation - To the extent cost effective, duties should be segregated and management should attempt to mitigate this weakness by supervision and review procedures.

Action Taken - We concur with this recommendation and we have implemented supervision and review procedures to the extent possible.

01-02 Bank Reconciliations

Recommendation - Procedures should be implemented requiring all bank accounts to be reconciled on a monthly basis with differences investigated. The bank reconciliation should be reviewed by appropriate Council personnel.

Action Taken - The Financial Officer is in charge of reconciling the general ledger cash accounts to the bank reconciliations and the reconciliation will be reviewed by the proper level of management.

01-03 Accounts Payable

Recommendation - Procedures should be implemented requiring the accounts payable subsidiary ledger to be reconciled to the accounts payable control account on a monthly basis. The reconciliations should be reviewed by appropriate Council personnel.

Action Taken - The Financial Officer is in charge of reconciling the accounts payable control account on the general ledger to the accounts payable subsidiary ledger on a monthly basis. The reconciliation will be reviewed by the proper level of management.



Amy Dunn, Executive Director